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# STATE OF INDIANA

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DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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**TO:** Assessing Officials

**FROM:** Barry Wood, Assessment Division Director

**RE:** 2014 Ratio Study Guidance

**DATE:** January 17, 2014

The purpose of this memorandum is to provide guidance to assessing officials regarding changes in the ratio study review process by the Department of Local Government Finance ("Department") for the 2014 assessment year. The guidance is similar to last year's guidance, with a few minor changes. The first section describes the 2014 ratio study process in conjunction with the 2014 annual adjustment ("trending") process. The second section details changes to the ratio submission format. These changes are described in more detail in the attached 2014 Ratio Study Format document.

NOTE: The cyclical reassessment commences on July 1, 2014, for the March 1, 2015 assessment date. The Department will provide guidance on the annual adjustment and ratio study review process during cyclical reassessment at a future time. The 2014 annual adjustment should not be performed under the guidelines for cyclical reassessment.

## **2014 Annual Adjustment**

As in prior years, the Department requires each county assessor to have an approved ratio study prior to submitting 2014 certified assessed values to the county auditor. Per IC 6-1.1-5-14, the county assessor must deliver the real estate book (i.e., roll and balance 2014 pay 2015 gross assessed values) to the county auditor by July 1, 2014. Although there is no statutory date for submission of the county's ratio study, **to ensure on-time billing for 2014 pay 2015, it is highly recommended the ratio study be submitted by May 1, 2014.** Additionally, a county's ratio study will not be reviewed until all datasets are compliant, particularly the Sales Disclosure Data File (50 IAC 27-9-1).

**The Department will forward a copy of the approved sales file to the county that will be used in the review of the ratio study. In addition, the Department will forward a list of potentially valid sales. This list will contain all sales in the 2012 and 2013 compliant sales data files that are (1) marked "Valid for Trending" and (2) not trades, land contracts, or other sales generally unsuitable for assessment purposes. Each county must briefly explain all listed sales that are not used in their ratio study before study approval.**

Counties are NOT required to submit the reconciliation with the ratio study, but counties that do so may have their reconciliation completed before the study is assigned for review.

**NOTE: The reconciliation spreadsheet will contain both 2012 and 2013 sales to assist counties without sufficient 2013 sales for the annual adjustment. Counties that ultimately use only 2013 sales for the annual adjustment WILL NOT need to reconcile the 2012 sales.**

**It is hoped that this will facilitate an efficient review and comparison when sales are questioned.**

As part of the annual adjustment process, values in the ratio study are set using local market data such as the sale price of comparable properties. **If necessary, further adjustment based on local market data (“trending”) may be performed to meet ratio study standards. However, the purpose of the 2014 annual adjustment process is to value properties at their market value-in-use, as indicated by compliance with ratio study standards. If this goal is met without trending, no further adjustment is necessary.**

Counties are reminded that all cost estimates **SHALL** be in compliance with the 2011 Real Property Manual and Guidelines and the most current cost information in Appendices C and G. The cost estimates of properties **SHALL NOT** be determined by using cost schedules, depreciation schedules, or location cost multipliers other than those approved by the Department, unless the county has obtained Department approval for the deviation prior to performing the annual adjustment.

As in prior years, counties must base each annual adjustment factor on five or more sales if using the sales comparison approach to value. Factors with fewer than five sales may be supported with additional evidence of market value, such as income data, appraisals, or appeals. Where applicable, the Department requests that counties using additional data mention this in the narrative and briefly describe the data used. For example, “commercial properties were valued with data from 2013 appeals.” Neighborhoods with fewer than five sales may also be combined for adjustment purposes.

#### **RATIO STUDY SUBMISSION BY COUNTY**

It is highly recommended that the county conduct an internal ratio study before submitting its ratio study to the Department. If an internal ratio study is completed, please forward a copy to the Department. A narrative detailing the county’s annual adjustment process, and a “Workbook,” should be included with the county’s ratio study submission. The “Workbook” should contain data for each parcel of real property (e.g., state assigned parcel number, prior year land AV, current year land AV, prior year improvement AV, current year improvement AV, proposed adjustment [“trending”] factor [2 columns – one for land, one for improvements], etc.). An example of a sample “Workbook” can be found at [http://www.in.gov/dlgf/files/Sample\\_Workbook.xls](http://www.in.gov/dlgf/files/Sample_Workbook.xls). **Ratio studies will not be reviewed until a complete and compliant file is submitted.**

## ASSESSMENT DATE AND VALUATION DATE

- The assessment and valuation dates are both March 1, 2014. All real property should reflect characteristics as of this date.
- Depreciation should also be applied relative to March 1, 2014, and updated on an annual basis. If an adjustment is necessary, and depreciation has not been updated as part of the annual adjustment process, the adjustment factor may need to be revised to take into account increased depreciation from the 2012 General Reassessment.
- **Note: The cost tables and Depreciation Schedule will not be updated for the March 1, 2014 assessment date. The Department expects to update the cost tables and the Depreciation Schedule for the 2015 annual adjustment and cyclical reassessment. However, the depreciation base year is updated to 2014.**

## PARCEL CHARACTERISTICS

All properties must be assessed based on their characteristics as of March 1, 2014.

## RATIO STUDY REVIEW STANDARDS

The Department will review all ratio studies for the 2014 annual adjustment according to the guidelines set forth in the 2007 *IAAO Standard on Ratio Studies*. The 2014 ratio study review process is unchanged from the Department's guidance on sales review and ratio study analysis for 2011 – see [http://www.in.gov/dlgf/files/110111 - Wood Memo - 2011 Ratio Study Review Process and Annual Adjustment Guidance.pdf](http://www.in.gov/dlgf/files/110111_-_Wood_Memo_-_2011_Ratio_Study_Review_Process_and_Annual_Adjustment_Guidance.pdf).

### *Sales Window*

The assessing official must use sales of properties from the period of time from January 1, 2013 to March 1, 2014 for the March 1, 2014 assessment date (see the 2011 [*sic* 2012] Real Property Manual - [http://www.in.gov/dlgf/files/Adopted\\_2011RealPropertyAssessmentManual.pdf](http://www.in.gov/dlgf/files/Adopted_2011RealPropertyAssessmentManual.pdf) ). A longer time period may be required to produce a representative sample in some counties; however, no more than 5 years of sales may be used in the ratio study. Older sales must be time adjusted if appropriate in accordance with methods prescribed in the 2007 *IAAO Standard on Ratio Studies*.

### *Multiple Sales Years*

Similar to the 2013 assessment process, counties may use sales older than one year in one township without expanding the sales window for other townships. As in 2013, time adjustments for older sales must be performed using all comparable older sales, including those sales whose inclusion in the ratio study is not necessary because of sufficient current sales. This will promote equity among townships with different sales windows without requiring the addition of older sales in townships where they are not needed for assessment purposes.

For example, Adams Township has sufficient 2013 sales but Boone Township does not. The sales window is expanded to 2012 sales for Boone Township. The county does not need to expand the sales window to 2012 sales for Adams Township. However, the county should use comparable 2012 and 2013 sales from both Adams and Boone Townships to determine whether a time adjustment is necessary for the 2012 sales used in Boone Township.

### *Sales Chasing*

As in 2013, the methods listed in Appendix D of the 2007 IAAO Standard on Ratio Studies will be utilized for the 2014 annual adjustment process for detecting sales chasing. The Mann-Whitney test will be the primary method used, although the other methods may also be used.

### **Ratio Study Format**

The ratio study format is fully described in the attached memo. The format itself is unchanged from 2013.

As in prior years, ratio studies must be submitted in a spreadsheet compatible with Microsoft Excel 2007. The spreadsheet must contain one tab with ratio study data for each of the following types of property:

- Industrial Vacant
- Industrial Improved
- Commercial Vacant
- Commercial Improved
- Residential Vacant
- Residential Improved

In addition, the study should contain a *Summary* tab detailing the number of sales used and ratio statistics in each section of the ratio study.

For the 2014 annual adjustment, all ratio studies submitted to the Department must also include two additional tabs. The first tab is called *Formatted*. This tab must contain the ratio study data located in the other six tabs in a format readable by the SPSS software program. This format is fully described in the attached memo. This formatting can be done in Excel or another program.

**Note: The SPSS software program is not needed to produce the formatting.**

Because of the way the SPSS software reads the data, only one parcel from a multi-parcel sale can be included in the *Formatted* tab. To fix this, the ratio study should also include a second tab called *MultiParcelSales*. This tab will list all the data for each parcel in each multiple parcel sale included on the *Formatted* tab.

Adding these tabs will make the review process more efficient and should result in a faster approval time. In 2013, the average approval time for a ratio study (after data compliancy and a complete file was submitted) was 5.40 days. While calculating ratio statistics by hand is time consuming, a software program like SPSS can perform these calculations very quickly. Listing

multi-parcel sales in a separate tab will also make it easier to reconcile the sales used in the ratio study with the sales disclosure data reviewed by the Data Division.

The ratio study format is described in detail in the attached document.

Questions on this memo may be directed to Barry Wood, Assessment Division Director, at [bwood@dlgf.in.gov](mailto:bwood@dlgf.in.gov) or (317) 232-3762 or David Schwab, Senior Statistician/Application System Analyst, at [dschwab@dlgf.in.gov](mailto:dschwab@dlgf.in.gov) or (317) 234-5861.